

**TESTIMONY OF INSPECTOR GENERAL CHARLES C. MADDOX, ESQ.,  
BEFORE THE D.C. COUNCIL  
COMMITTEE OF THE WHOLE AND THE COMMITTEES ON FINANCE AND  
REVENUE AND GOVERNMENT OPERATIONS**

**FEBRUARY 7, 2001**

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**COUNCIL CHAIRMAN CROPP AND COUNCIL MEMBERS:**

**I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE  
COMMITTEE OF THE WHOLE AND THE COMMITTEES ON FINANCE AND  
REVENUE AND GOVERNMENT OPERATIONS TO TESTIFY, ALONG WITH  
OTHER WITNESSES, AT THIS PUBLIC BRIEFING ON THE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR  
ENDING SEPTEMBER 30, 2000.**

**BACKGROUND**

**SECTION 303 (b) OF PUBLIC LAW 104-8, THE DISTRICT OF COLUMBIA  
FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE ACT OF  
1995, STATES THAT THE OFFICE OF THE INSPECTOR (OIG) GENERAL  
SHALL ENTER INTO A CONTRACT WITH AN INDEPENDENT AUDITOR TO  
AUDIT THE FINANCIAL STATEMENTS AND TO REPORT ON  
MANAGEMENT ACTIVITIES OF THE DISTRICT GOVERNMENT FOR EACH  
FISCAL YEAR**

**PURSUANT TO PUBLIC LAW 104-8, THE OIG ENTERED INTO A CONTRACT WITH KPMG, LLP, AN INDEPENDENT AUDIT FIRM, ON SEPTEMBER 18, 2000. THEIR TASK WAS TO CONDUCT AN AUDIT OF THE FINANCIAL OPERATIONS OF THE DISTRICT OF COLUMBIA GOVERNMENT FOR FISCAL YEAR 2000. THE AUDITED FINANCIAL STATEMENTS AND REPORTS ARE REFERRED TO AS THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). THE MAIN PARTS OF THE CAFR INCLUDE THE FOLLOWING: 1) AUDITED FINANCIAL STATEMENTS, 2) A MANAGEMENT LETTER, AND 3) A REPORT ON INTERNAL CONTROLS AND COMPLIANCE WITH LAWS AND REGULATIONS. THE CONTRACT CONTAINED AN OPTION TO CONDUCT SUCH AUDITS FOR FISCAL YEARS 2001 THROUGH 2004.**

### **ROLE OF THE OIG**

**MY OFFICE FUNCTIONED IN A PROCUREMENT CAPACITY WITH REGARD TO AWARDING THE CAFR CONTRACT. IN ORDER TO OVERSEE THE PROGRESS OF THE AUDIT, AND TO KEEP STAKEHOLDERS INFORMED OF AUDIT MILESTONES, WE ESTABLISHED AN OVERSIGHT COMMITTEE COMPOSED OF REPRESENTATIVES FROM VARIOUS ENTITIES, INCLUDING THE OIG, THE OFFICE OF THE CHIEF FINANCIAL OFFICER, THE MAYOR'S OFFICE, THE COUNCIL, AND THE OFFICE OF**

**THE CITY ADMINISTRATOR. IN ADDITION, REPRESENTATIVES FROM THE U.S. GENERAL ACCOUNTING OFFICE ALSO ATTENDED THE MEETINGS.**

**THE AUDIT BEGAN WITH A KICK-OFF SESSION CONVENED TO INFORM DISTRICT FINANCIAL AND PROGRAM PERSONNEL OF AUDIT REQUIREMENTS AND OF VARIOUS TASKS EXPECTED OF THEM. WE PROVIDED GUIDANCE ABOUT THE TIMELINE AND ABOUT ISSUES REGARDING THE PREPARATION OF FINANCIAL CLOSING PACKAGES FOR AGENCIES. WE WANTED TO MAKE SURE THAT THE AUDIT WOULD PROCEED SMOOTHLY AND BE COMPLETED IN A TIMELY MANNER. SPEAKERS AT THE KICK-OFF SESSIONS INCLUDED ME, JOHN KOSKINEN, DEPUTY MAYOR AND CITY ADMINISTRATOR; DR. NATWAR GANDHI, CHIEF FINANCIAL OFFICER; AND COUNCILMEMBER JACK EVANS, CHAIRMAN OF THE COMMITTEE ON FINANCE AND REVENUE. ALL SPEAKERS STRESSED THE IMPORTANCE OF MEETING THE DEADLINE, AND I BELIEVE THIS MEETING HELPED TO ESTABLISH FOCUS AND SET A POSITIVE TONE FOR THE WORK AHEAD.**

#### **THE INDEPENDENT AUDIT FIRM**

**KPMG, LLP, THE INDEPENDENT ACCOUNTING FIRM, WAS RESPONSIBLE FOR PLANNING THE AUDIT, ASSESSING RISKS, EVALUATING INTERNAL**

AND MANAGEMENT CONTROLS, AND PERFORMING SUBSTANTIVE TESTS OF VARIOUS TRANSACTIONS. ALL OF THESE DUTIES ENABLED THE FIRM TO BE IN THE BEST POSITION TO RENDER AN OPINION AS TO WHETHER OR NOT THE FINANCIAL STATEMENTS FAIRLY REPRESENT THE FINANCIAL POSITION OF THE DISTRICT. THEY ALSO HELPED THE FIRM TO VERIFY THE RESULTS OF OPERATIONS FOR THE PERIOD UNDER AUDIT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

#### **FISCAL YEAR 2000 AUDIT PROCESS**

BECAUSE THE AUDIT CONTRACT WAS NOT SIGNED UNTIL SEPTEMBER 18, 2000, THE AUDITORS AND THE STAFF OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO) HAD TO WORK WITH EXTRAORDINARY DILIGENCE AND PROFESSIONAL CARE TO COMPLETE THEIR TASKS ON TIME. FORTUNATELY, LESSONS LEARNED DURING LAST YEAR'S EXPERIENCE ENABLED US TO HAVE PROCEDURES SET IN PLACE SO THAT WE COULD ADDRESS PROBLEMS AS THEY AROSE. IN THAT REGARD, THE AUDIT COMMITTEE CONVENED, AT FIRST, ON A BI-WEEKLY BASIS, AND THEN LATER WEEKLY, TO DISCUSS THE PROGRESS OF THE AUDIT AND ANY OTHER ISSUES, WHICH MIGHT AFFECT THE AUDIT. WHEN AND WHERE IT WAS NECESSARY, THE AUDITORS AND OCFO REPRESENTATIVES OFFERED ADDITIONAL

**RESOURCES TO RESOLVE PROBLEMS AS EXPEDITIOUSLY AS POSSIBLE. I AM PLEASED TO SAY THAT THE AUDITORS AND THE OCFO KEPT THE AUDIT COMMITTEE WELL INFORMED EVERY STEP OF THE WAY. NEEDLESS TO SAY, I JOINED ALL OF YOU IN THE PLEASURE OF ANNOUNCING COMPLETION OF THE AUDIT TWO DAYS AHEAD OF THE FEBRUARY 1<sup>ST</sup> DEADLINE. THE OIG CONGRATULATES KPMG AND THE OCFO FOR A JOB WELL DONE.**

### **THE FUTURE**

**THE FISCAL YEAR 2000 CAFR AUDIT RESULTED IN AN UNQUALIFIED OPINION FOR THE DISTRICT. THIS MEANS THAT THE DISTRICT'S BOOKS AND RECORDS FAIRLY REPRESENTED THE FINANCIAL POSITION OF THE DISTRICT AS OF SEPTEMBER 30, 2000 AND THE RESULTS OF OPERATIONS FOR THE FISCAL YEAR. AS WE ALL KNOW, THE AUDIT INDICATED THAT THE DISTRICT HAD A \$240 MILLION SURPLUS FOR FISCAL YEAR 2000 - THE FOURTH CONSECUTIVE YEAR FOR A BALANCED BUDGET. THIS, OF COURSE, IS GOOD NEWS.**

**HOWEVER, MUCH WORK REMAINS TO BE DONE IF WE ARE TO ENSURE THE FUTURE ECONOMIC STABILITY OF THE DISTRICT AND EFFICIENT AND EFFECTIVE GOVERNMENT OPERATIONS. KPMG'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS, FOR EXAMPLE,**

**INDICATES THAT THE DISTRICT IS NOT IN COMPLIANCE WITH CERTAIN PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND GRANTS. THE MANAGEMENT LETTER, WHICH WILL BE RELEASED IN MARCH 2001, IS EXPECTED TO REVEAL THAT MANY PREVIOUSLY REPORTED DEFICIENCIES STILL EXIST. FURTHERMORE, PROBLEMS THAT OCCURRED DURING THE AUDITS OF THE UNIVERSITY OF THE DISTRICT OF COLUMBIA AND THE PUBLIC BENEFITS CORPORATION INDICATE THAT SYSTEMS AND PERSONNEL HAVE TO BE PUT IN PLACE TO ENSURE THAT FINANCIAL EVENTS ARE PROPERLY AUTHORIZED, RECOGNIZED, AND RECORDED.**

**AS PART OF OUR ONGOING MANDATE, WE WILL CONTINUE TO DO OUR PART TO ENABLE MANAGERS TO IMPROVE GOVERNMENT SERVICES. WE ARE PERFORMING AUDITS SCHEDULED FOR FISCAL YEAR 2001 THAT SHOULD LEAD TO IMPROVED DISTRICT OPERATIONS. IN ADDITION, WE WILL CONTINUE TO PERFORM FOLLOW-UP REVIEWS TO ASCERTAIN WHETHER RECOMMENDATIONS FROM OUR OWN AUDITS, AS WELL AS OTHER AUDITS, SUCH AS THE CAFR, HAVE BEEN IMPLEMENTED BY VARIOUS AGENCIES.**

**AGAIN, I WOULD LIKE TO EXPRESS MY APPRECIATION TO THE MEMBERS OF THE COUNCIL FOR YOUR SUPPORT IN THE SUCCESSFUL**

**COMPLETION OF THIS YEAR'S CAFR. I LOOK FORWARD TO  
ANSWERING ANY OF YOUR QUESTIONS AT THIS TIME.**